

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name HOLLAND BOARD OF PUBLIC WORKS	County OTTAWA
Fiscal Year End JUNE 30, 2007	Opinion Date SEPTEMBER 5, 2007	Date Audit Report Submitted to State September 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

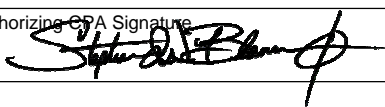
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None issued	
Other (Describe)	<input type="checkbox"/>	NONE	
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100	
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI
		Zip 49546	
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	License Number 24801



HOLLAND BOARD OF PUBLIC WORKS

HOLLAND, MICHIGAN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2007

HOLLAND BOARD OF PUBLIC WORKS

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

September 5, 2007

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the Holland Board of Public Works, (enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Holland Board of Public Works' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Holland Board of Public Works Enterprise Funds and do not purport to, and do not present fairly the financial position of the City of Holland, Michigan, as of June 30, 2007 and the changes in its financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Holland Board of Public Works, as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2007 on our consideration of the Holland Board of Public Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Holland Board of Public Works has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Public Works' financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Holland Board of Public Works. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

HOLLAND BOARD OF PUBLIC WORKS

Statement of Net Assets

June 30, 2007
(with comparative totals for the year ended June 30, 2006)

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Business-Type Activities</u>	
				<u>2007</u>	<u>2006</u>
Assets					
Current assets					
Cash and cash equivalents	\$ 17,897,040	\$ 2,505,816	\$ 1,444,754	\$ 21,847,610	\$ 13,098,094
Investments	34,798,990	15,354,280	1,000,000	51,153,270	48,089,550
Receivables:					
Accounts receivable	5,603,759	777,832	558,839	6,940,430	6,142,005
Unbilled revenue	3,727,096	173,621	375,094	4,275,811	4,072,617
Special assessments and other	-	166,028	134,551	300,579	186,618
Accrued interest	482,318	111,921	9,333	603,572	318,187
Due from other funds of the					
City of Holland	317,641	146,587	23,428	487,656	254,825
Inventories	9,572,270	32,149	159,102	9,763,521	9,852,644
Prepaid expenses	194,281	5,503	4,963	204,747	141,666
	<u>72,593,395</u>	<u>19,273,737</u>	<u>3,710,064</u>	<u>95,577,196</u>	<u>82,156,206</u>
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	2,949,819	680,888	8,011,522	11,642,229	11,501,367
Investments	5,576,384	1,487,300	1,751,528	8,815,212	7,913,801
Accrued interest	-	11,775	-	11,775	6,732
Total restricted assets	<u>8,526,203</u>	<u>2,179,963</u>	<u>9,763,050</u>	<u>20,469,216</u>	<u>19,421,900</u>
Capital assets:					
Land	4,810,124	260,673	1,699,555	6,770,352	6,740,098
Construction in progress	1,086,661	200,065	5,056,547	6,343,273	2,832,920
Plant and equipment	206,917,900	64,206,782	42,765,853	313,890,535	310,934,674
Accumulated depreciation	(134,375,247)	(32,710,450)	(16,390,545)	(183,476,242)	(171,860,464)
Total capital assets, net	<u>78,439,438</u>	<u>31,957,070</u>	<u>33,131,410</u>	<u>143,527,918</u>	<u>148,647,228</u>
Total noncurrent assets	<u>86,965,641</u>	<u>34,137,033</u>	<u>42,894,460</u>	<u>163,997,134</u>	<u>168,069,128</u>
Total assets	<u>159,559,036</u>	<u>53,410,770</u>	<u>46,604,524</u>	<u>259,574,330</u>	<u>250,225,334</u>

The accompanying notes are an integral part of these financial statements.

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2007	2006
Liabilities					
Current liabilities					
Accounts payable	\$ 7,249,649	\$ 221,260	\$ 1,741,668	\$ 9,212,577	\$ 7,846,459
Accrued salaries and wages payable	426,531	181,149	131,386	739,066	706,880
Due to other funds of the City of Holland	15,097	31,106	216,019	262,222	475,491
Deposits	161,372	-	-	161,372	188,558
Accrued interest payable	-	15,697	-	15,697	17,366
Current maturities of bonds payable	-	521,500	-	521,500	500,500
Total current liabilities	<u>7,852,649</u>	<u>970,712</u>	<u>2,089,073</u>	<u>10,912,434</u>	<u>9,735,254</u>
Current liabilities payable from restricted assets					
Bonds payable	2,705,000	-	755,000	3,460,000	3,030,000
Accrued interest payable	<u>35,165</u>	<u>-</u>	<u>384,873</u>	<u>420,038</u>	<u>460,940</u>
Total current liabilities payable from restricted assets	<u>2,740,165</u>	<u>-</u>	<u>1,139,873</u>	<u>3,880,038</u>	<u>3,490,940</u>
Long-term debt - net of current portion	<u>-</u>	<u>3,480,884</u>	<u>18,141,918</u>	<u>21,622,802</u>	<u>25,449,442</u>
Total liabilities	<u>10,592,814</u>	<u>4,451,596</u>	<u>21,370,864</u>	<u>36,415,274</u>	<u>38,675,636</u>
Net assets					
Invested in capital assets, net of related debt	75,734,438	27,954,686	14,234,492	117,923,616	119,667,286
Restricted for:					
Equipment replacement	200,000	2,179,963	-	2,379,963	1,763,043
Park Township	-	-	150,136	150,136	128,049
Cooperative payments	4,180,184	-	-	4,180,184	3,952,883
Construction	-	-	6,714,676	6,714,676	7,075,022
Unrestricted	<u>68,851,600</u>	<u>18,824,525</u>	<u>4,134,356</u>	<u>91,810,481</u>	<u>78,963,415</u>
Total net assets	<u>\$ 148,966,222</u>	<u>\$ 48,959,174</u>	<u>\$ 25,233,660</u>	<u>\$ 223,159,056</u>	<u>\$ 211,549,698</u>

HOLLAND BOARD OF PUBLIC WORKS

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2007	2006
Operating revenue					
Residential sales	\$ 15,294,284	\$ 1,526,486	\$ 1,714,338	\$ 18,535,108	\$ 18,178,871
Commercial sales	32,476,948	1,310,418	1,313,676	35,101,042	36,398,395
Industrial sales	31,149,056	573,507	773,213	32,495,776	29,678,188
Wholesale	-	1,674,070	1,375,981	3,050,051	2,962,205
Fees and other	2,356,035	2,230,962	491,041	5,078,038	4,134,598
Total operating revenue	81,276,323	7,315,443	5,668,249	94,260,015	91,352,257
Operating expenses					
Salaries and wages	3,052,467	1,030,842	739,648	4,822,957	4,612,248
Employee benefits	2,125,243	646,847	443,870	3,215,960	3,154,335
Production	50,734,846	1,913,715	520,296	53,168,857	58,783,242
Distribution	2,743,161	645,431	570,286	3,958,878	3,942,506
Administrative and general	3,231,425	1,415,540	1,360,247	6,007,212	5,971,179
Depreciation	8,970,714	1,801,985	1,188,357	11,961,056	12,306,217
Total operating expenses	70,857,856	7,454,360	4,822,704	83,134,920	88,769,727
Operating income (loss)	10,418,467	(138,917)	845,545	11,125,095	2,582,530
Nonoperating income (expense) - net					
Interest income	2,358,884	941,303	593,204	3,893,391	2,100,464
Interest expense	(124,966)	(237,951)	(839,308)	(1,202,225)	(1,350,152)
Insurance refunds	-	-	-	-	48,000
Gain (loss) on sale and disposal of capital assets	12,987	(94)	3,335	16,228	(3,491)
Total nonoperating income (expense) - net	2,246,905	703,258	(242,769)	2,707,394	794,821
Net income (loss) before contributions and transfers	12,665,372	564,341	602,776	13,832,489	3,377,351
Capital contributions					
Infrastructure	-	144,765	72,000	216,765	414,162
Trunkage	-	306,896	93,608	400,504	380,040
Total capital contributions	-	451,661	165,608	617,269	794,202
Transfers out to other funds of the City	(2,840,400)	-	-	(2,840,400)	(2,433,000)
Change in net assets	9,824,972	1,016,002	768,384	11,609,358	1,738,553
Net assets, beginning of year	139,141,250	47,943,172	24,465,276	211,549,698	209,811,145
Net assets, end of year	<u>\$ 148,966,222</u>	<u>\$ 48,959,174</u>	<u>\$ 25,233,660</u>	<u>\$ 223,159,056</u>	<u>\$ 211,549,698</u>

The accompanying notes are an integral part of these financial statements.

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows

For the Year Ended June 30, 2007

(with comparative totals for the year ended June 30, 2006)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2007	2006
Cash flows from operating activities					
Receipts from customers and users	\$ 80,350,850	\$ 7,073,400	\$ 5,487,354	\$ 92,911,604	\$ 91,237,012
Payments to suppliers	(56,487,605)	(4,263,572)	(1,199,879)	(61,951,056)	(71,219,749)
Payments to employees	(5,177,710)	(1,677,689)	(1,183,518)	(8,038,917)	(7,766,583)
Net cash provided by operating activities	18,685,535	1,132,139	3,103,957	22,921,631	12,250,680
Cash flows from noncapital financing activities					
Insurance refunds	-	-	-	-	48,000
Transfers to other funds of the City	(2,840,400)	-	-	(2,840,400)	(2,433,000)
Net cash (used in) noncapital financing activities	(2,840,400)	-	-	(2,840,400)	(2,385,000)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	(2,500,693)	(469,270)	(466,231)	(3,436,194)	(2,823,583)
Interest paid on long-term debt	(154,348)	(239,620)	(790,274)	(1,184,242)	(1,030,440)
Capital contributions received	-	306,896	93,608	400,504	794,202
Proceeds from sale of capital assets	16,969	73	6,515	23,557	221,800
Purchase of property, plant and equipment	(2,585,062)	(782,579)	(3,264,669)	(6,632,310)	(7,844,925)
Net cash (used in) capital and related financing activities	(5,223,134)	(1,184,500)	(4,421,051)	(10,828,685)	(10,682,946)
Cash flows from investing activities					
Interest income	2,120,930	889,746	592,287	3,602,963	2,108,577
Purchase of investment securities	(40,375,374)	(16,841,580)	(2,751,528)	(59,968,482)	(56,003,351)
Proceeds from sale or maturities of investment securities	36,791,952	16,545,470	2,665,929	56,003,351	59,306,655
Net cash provided by (used in) investing activities	(1,462,492)	593,636	506,688	(362,168)	5,411,881
Net increase (decrease) in cash and cash equivalents	9,159,509	541,275	(810,406)	8,890,378	4,594,615
Cash and cash equivalents, beginning of year	11,687,350	2,645,429	10,266,682	24,599,461	20,004,846
Cash and cash equivalents, end of year	<u>\$ 20,846,859</u>	<u>\$ 3,186,704</u>	<u>\$ 9,456,276</u>	<u>\$ 33,489,839</u>	<u>\$ 24,599,461</u>
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 17,897,040	\$ 2,505,816	\$ 1,444,754	\$ 21,847,610	\$ 13,098,094
Restricted assets, cash and cash equivalents	2,949,819	680,888	8,011,522	11,642,229	11,501,367
Total cash and cash equivalents	<u>\$ 20,846,859</u>	<u>\$ 3,186,704</u>	<u>\$ 9,456,276</u>	<u>\$ 33,489,839</u>	<u>\$ 24,599,461</u>

(Continued)

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2007	2006
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 10,418,467	\$ (138,917)	\$ 845,545	\$ 11,125,095	\$ 2,582,530
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	8,970,714	1,801,985	1,188,357	11,961,056	12,306,217
Changes in operating assets and liabilities which provided (used) cash					
Receivables	(836,623)	(96,094)	(182,863)	(1,115,580)	(66,317)
Due from other funds of the City of Holland	(88,850)	(145,949)	1,968	(232,831)	(48,928)
Inventories	81,812	8,877	(1,566)	89,123	(2,939,191)
Prepaid expenses	(63,077)	(110)	106	(63,081)	30,234
Accounts payable	215,441	(90,154)	1,240,831	1,366,118	107,986
Accrued salaries and wages payable	8,039	17,344	6,803	32,186	69,261
Due to other funds of the City of Holland	6,798	(224,843)	4,776	(213,269)	202,713
Deposits	(27,186)	-	-	(27,186)	6,175
Net cash provided by operating activities	\$ 18,685,535	\$ 1,132,139	\$ 3,103,957	\$ 22,921,631	\$ 12,250,680

Non-cash transaction

The Board received capital contributions of \$144,765 and \$72,000 in the wastewater and water utilities, respectively, which did not involve cash.

(Concluded)

The accompanying notes are an integral part of these financial statements.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Holland Board of Public Works (the “Board”) is comprised of three enterprise funds of the City of Holland (the “City”). It operates under direction of the City Charter and City Council resolution. The Board provides electric, water and wastewater services to users in the City of Holland and portions of the surrounding area. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Board enterprise funds are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the Holland Board of Public Works. For the most part, the effect of interfund activity has been removed from these statements.

Major individual enterprise funds are reported as separate columns in the statements.

The Board reports the following major enterprise funds:

Electric Utility Fund – This fund is used to account for the electric utility which include fees and costs associated with the generation, purchase, transmission, distribution and sale of electricity.

Wastewater Utility Fund – This fund is used to account for the wastewater utility which include fees and costs associated with the collection, transportation and treatment of wastewater.

Water Utility Fund – This fund is used to account for the water utility which includes fees and costs associated with the treatment and distribution of water.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Investments

Investments are recorded at fair value, which approximates cost at the balance sheet date.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventories

Inventory consisting of coal is stated at the lower of cost, determined by the moving average method, or market. Inventory of system components is stated at cost utilizing the first-in first-out (FIFO) method.

Prepaid Items

The Board incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the Board records an asset to reflect the investment in future services.

Restricted Assets

Certain proceeds of the Board's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate accounts and their use is limited by applicable bond covenants. The maintenance account is used to report resources set aside to subsidize potential deficiencies from the Board's operation that could adversely affect debt service payments. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Wastewater Utility include assets purchased with funds provided by participating townships. Depreciation on these assets was approximately \$262,000.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Refunding Costs

Refunding costs are amortized over the term of the related bonds using the interest method. Amortization is charged to interest expense.

Transfers

Transfers from the electric fund represent contributions to the City of Holland's general fund, based on Board and City agreements.

2. DEPOSITS AND INVESTMENTS

The Board's deposits and investments are included on the statement of net assets under the following classifications:

	June 30, 2007			
	Cash and Cash Equivalents	Investments	Restricted Assets	Total
Deposits	\$ 1,190,161	\$18,000,000	\$13,258,010	\$32,448,171
Investments	20,655,349	33,153,270	7,199,431	61,008,050
Cash on hand	2,100	-	-	2,100
Total	<u>\$21,847,610</u>	<u>\$51,153,270</u>	<u>\$20,457,441</u>	<u>\$93,458,321</u>

Statutory Authority

State statutes authorize the Board to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board's investment policy allows for all of these types of investments.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

The Board chooses to disclose its investments by specifically identifying each. As of year-end, the Board had the following investments:

Investment	Maturity Date	Fair Market Value	Rating
Federal Home Loan Bank	04/14/2008	\$ 984,400	S&P AAA
Federal Home Loan Bank	05/28/2008	1,961,000	S&P AAA
Federal Home Loan Bank	12/26/2007	1,973,000	S&P AAA
Federal Home Loan Bank	12/26/2007	1,973,000	S&P AAA
Federal Home Loan Bank	12/28/2007	1,974,600	S&P AAA
Federal Home Loan Bank	11/21/2007	1,998,600	S&P AAA
Federal Home Loan Bank	11/21/2008	1,995,800	S&P AAA
Federal Home Loan Bank	12/29/2008	974,800	S&P AAA
Federal Home Loan Bank	01/30/2009	998,000	S&P AAA
Federal Home Loan Mortgage Corporation	02/06/2009	997,600	S&P AAA
Federal Home Loan Bank	03/05/2008	998,600	S&P AAA
Federal Home Loan Bank	12/12/2008	998,600	S&P AAA
Federal Home Loan Bank	12/26/2007	1,972,500	S&P AAA
Federal Home Loan Bank	12/15/2008	997,500	S&P AAA
Federal Home Loan Bank	12/29/2008	1,996,260	S&P AAA
Federal Home Loan Bank	01/30/2009	999,380	S&P AAA
Federal Home Loan Bank	05/21/2009	997,810	S&P AAA
Federal Home Loan Bank	05/15/2009	997,190	S&P AAA
Federal National Mortgage Association	01/26/2009	999,060	S&P AAA
Federal Farm Credit Bank	02/21/2008	1,972,500	S&P AAA
Federal National Mortgage Association	11/28/2008	2,917,500	S&P AAA
Federal Home Loan Mortgage Corporation	12/30/2008	969,470	S&P AAA
Federal Home Loan Bank	04/30/2009	996,560	S&P AAA
Federal Home Loan Mortgage Corporation	09/14/2009	996,840	S&P AAA
MPPA Investments	Various	4,180,184	S&P AAA
Repurchase agreements	N/A	21,677,638	Not rated
Fifth Third Local Units of Government Fund	N/A	9,654	Not rated
Huntington Premier Money Market	N/A	500,000	Not rated
Fifth Third Institutional Money Market	N/A	4	Not rated
Total Investments		<u>\$ 61,008,050</u>	

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Board's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Board's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board's investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$32,642,282 of the Board's bank balance of \$33,142,282 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law. Of the above \$61,008,050 of investments the Board has a custodial credit risk exposure of \$21,677,638 because the related repurchase agreements are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The Board's investment policy does not allow for investment concentration with any one financial institution to exceed 80% of the total portfolio. This requirement was not exceeded. More than 5 percent of the Board's investments are in repurchase agreements and government agency securities as noted above.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

The Board has earmarked cash and investment balances for system expansion, maintenance and insurance risk retention as follows:

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
City Trunkage	\$ -	\$ 282,169	\$ 165,293	\$ 447,462
Township Trunkage	-	131,597	-	131,597
Construction	-	6,714,676	-	6,714,676
Insurance/risk retention	<u>2,881,018</u>	<u>623,519</u>	<u>621,537</u>	<u>4,126,074</u>
	<u>\$ 2,881,018</u>	<u>\$ 7,751,961</u>	<u>\$ 786,830</u>	<u>\$ 11,419,809</u>

3. CAPITAL ASSETS

A summary of capital assets at June 30 is as follows:

	<u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>2007</u>	<u>Life-Years</u>
Capital assets, not being depreciated					
Land	\$ 6,740,098	\$ 30,254	\$ -	\$ 6,770,352	
Construction in progress	<u>2,832,920</u>	<u>4,025,821</u>	<u>515,468</u>	<u>6,343,273</u>	
	<u>9,573,018</u>	<u>4,056,075</u>	<u>515,468</u>	<u>13,113,625</u>	
Capital assets, being depreciated					
Production plant	165,969,595	453,415	78,336	166,344,674	5-50
Distribution system	95,839,662	1,794,694	29,809	97,604,547	20-50
Transmission	32,281,219	795,427	-	33,076,646	20-50
General plant	<u>16,844,198</u>	<u>264,932</u>	<u>244,462</u>	<u>16,864,668</u>	5-50
	<u>310,934,674</u>	<u>3,308,468</u>	<u>352,607</u>	<u>313,890,535</u>	
Accumulated depreciation					
Production plant	98,171,498	5,748,093	78,256	103,841,335	
Distribution system	52,323,964	4,608,019	23,028	56,908,955	
Transmission	13,664,588	776,452	-	14,441,040	
General plant	<u>7,700,414</u>	<u>828,492</u>	<u>243,994</u>	<u>8,284,912</u>	
	<u>171,860,464</u>	<u>11,961,056</u>	<u>345,278</u>	<u>183,476,242</u>	
Net assets being depreciated	<u>139,074,210</u>	<u>(8,652,588)</u>	<u>7,329</u>	<u>130,414,293</u>	
Net capital assets	<u>\$ 148,647,228</u>	<u>\$ (4,596,513)</u>	<u>\$ 522,797</u>	<u>\$ 143,527,918</u>	

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
1997 Water Supply System Bonds, net of unamortized discount of \$- and \$8,767 in 2007 and 2006, respectively, interest rates range from 3.85% to 5.375%	\$ 971,233	\$ -	\$ 466,233	\$ 505,000	\$ 505,000
2002A Electric Revenue Refunding Bonds, net of unamortized discount and deferred refunding cost of \$- and \$54,309 in 2007 and 2006, respectively, interest rates range from 2.0% to 2.6%	5,205,691	-	2,500,691	2,705,000	2,705,000
2001 Ottawa County Refunding Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal Bond issue), net of unamortized discount of \$218,616 and \$249,846 in 2007 and 2006, respectively, interest rates range from 2.8% to 4.75%.	4,471,654	-	469,270	4,002,384	521,500
2005A Water Supply System Revenue Refunding Bonds, net of unamortized discount of \$309,563 and \$359,910 in 2007 and 2006, respectively, interest rates range from 3.0% to 4.0%.	7,275,090	50,346	-	7,325,436	-
2005B Water Supply System Revenue Bonds, net of unamortized discount of \$133,518 and \$143,726 in 2007 and 2006, respectively, interest rates ranging from 3.0% to 5.0%.	<u>11,056,274</u>	<u>10,209</u>	<u>-</u>	<u>11,066,483</u>	<u>250,000</u>
Total long-term debt	28,979,942	60,555	3,436,194	25,604,303	<u>\$ 3,981,500</u>
Less amounts reported in:					
Current liabilities – current maturities of bonds payable	500,500	521,500	500,500	521,500	
Current liabilities payable from restricted assets	<u>3,030,000</u>	<u>3,460,000</u>	<u>3,030,000</u>	<u>3,460,000</u>	
Long-term debt – net of current portion	<u>\$ 25,449,442</u>	<u>\$ (3,920,945)</u>	<u>\$ (94,306)</u>	<u>\$ 21,622,803</u>	

The Board has created a statutory first lien on the net revenue of the Electric and Water funds to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that reserve funds be maintained with a minimum balance during the period each issue is outstanding.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2007, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 3,981,500	\$ 977,156	\$ 4,958,656
2009	1,336,000	892,636	2,228,636
2010	1,394,000	845,281	2,239,281
2011	1,443,500	795,137	2,238,637
2012	1,505,000	741,669	2,246,669
2013-2017	6,226,000	2,852,892	9,078,892
2018-2022	6,015,000	1,687,726	7,702,726
2023-2025	4,365,000	329,181	4,694,181
Total	\$26,266,000	\$ 9,121,678	\$35,387,678

Covenants of the Revenue Bond Resolution provide for, among other things, restrictions on the transfer of funds, issuance of additional debt, creation of liens, and the sale and lease of property. In addition, the covenants require that the rates be set sufficient to cover the scheduled debt service.

5. PENSION PLANS

Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2006, which is the most recent information available.

Plan Description

The Board participates with the City in a defined benefit pension plan. The City's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is from 9.27% to 11.08% (depending on bargaining unit) of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the Board of Public Works.

Annual Pension Cost

For the year ended June 30, 2007, the Board's annual pension cost of \$840,908 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, ranges from 24 to 30 years, depending on the specific employee group.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$679,737	100%	\$ -
June 30, 2006	685,402	100%	-
June 30, 2007	840,908	100%	-

The schedule of funding progress for the City of Holland is included in the City of Holland's financial statements for the year ended June 30, 2007.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for nonbargaining employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2%. The participants direct their investments under defined contribution provisions. The Board contributed \$109,337 and employees contributed \$26,216 to the defined contribution plan.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2007.

7. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$698,547 for various electric utility projects, \$329,232 for various water projects, and \$932,059 for various wastewater projects.

8. LANDFILL CLOSURE AND POSTCLOSURE CARE

The Board owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$9,000 held in trust at June 30, 2007.

The Board has recognized a liability for closure and postclosure cost of \$327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of at least 50 years with approximately 73% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on current usage, inflation, deflation, changes in technology, applicable laws and regulations.

9. JOINT VENTURE

The Board entered into a joint venture, the Michigan Public Power Agency (MPPA), with 15 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. The Board is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing MI 48917.

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, and 26.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980. These contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2007, the Board recognized expenses totaling \$12,670,881 under the terms of the contract which represented \$3,066,032 for fixed operating costs, \$5,281,703 for debt service and \$4,323,146 for the purchase of power. Accounts payable to MPPA totaled \$2,356,754 at June 30, 2007. For the year ended June 30, 2006, the Board recognized expenses totaling \$14,207,178 under the terms of the contract which represented \$3,997,648 for fixed operating costs, \$5,280,953, for debt service and \$4,928,577 for the purchase of power. Accounts payable to MPPA totaled \$2,798,123 at June 30, 2006. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

A summary of future transactions with the MPPA is as follows:

Year	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2008	\$ 4,305,839	\$ 2,505,943	\$ 1,095,732	\$ 652,070	\$ 8,559,584
2009	4,305,297	2,581,121	1,095,501	671,633	8,653,552
2010	4,305,373	2,658,555	915,089	691,782	8,570,799
2011	4,306,019	2,738,312	919,622	712,535	8,676,488
2012	4,306,001	2,820,461	922,180	733,911	8,782,553
2013-2017	21,527,945	15,423,437	3,532,092	3,162,523	40,483,474
2018	4,305,962	3,367,778	-	-	7,673,740
	\$47,362,436	\$32,095,607	\$ 8,480,216	\$ 6,624,454	\$ 91,400,190

Debt Service requirements expire in the years 2018 and 2016 for the Belle River and Campbell projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

10. LITIGATION

In the normal course of its activities, the Board is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. Although some actions have been brought, the Board has not experienced significant losses or costs. The Board is of the opinion that the outcome of any pending actions will not have a material effect on the Board's financial position or results of operations.

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SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Net Assets

June 30, 2006

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 8,857,560	\$ 2,049,718	\$ 2,190,816	\$ 13,098,094
Investments	31,504,680	15,584,870	1,000,000	48,089,550
Receivables:				
Accounts receivable	4,917,174	771,356	453,475	6,142,005
Unbilled revenue	3,577,058	169,388	326,171	4,072,617
Special assessments and other	-	80,643	105,975	186,618
Accrued interest	244,364	65,407	8,416	318,187
Due from other funds of the				
City of Holland	228,791	638	25,396	254,825
Inventories	9,654,082	41,026	157,536	9,852,644
Prepaid expenses	<u>131,204</u>	<u>5,393</u>	<u>5,069</u>	<u>141,666</u>
Total current assets	<u>59,114,913</u>	<u>18,768,439</u>	<u>4,272,854</u>	<u>82,156,206</u>
Noncurrent assets				
Restricted assets:				
Cash and cash equivalents	2,829,790	595,711	8,075,866	11,501,367
Investments	5,287,272	960,600	1,665,929	7,913,801
Accrued interest	-	6,732	-	6,732
Total restricted assets	<u>8,117,062</u>	<u>1,563,043</u>	<u>9,741,795</u>	<u>19,421,900</u>
Capital assets:				
Land	4,810,124	260,673	1,669,301	6,740,098
Construction in progress	177,395	230,708	2,424,817	2,832,920
Plant and equipment	205,469,061	63,314,556	42,151,057	310,934,674
Accumulated depreciation	<u>(125,627,508)</u>	<u>(30,974,059)</u>	<u>(15,258,897)</u>	<u>(171,860,464)</u>
Total capital assets - net	<u>84,829,072</u>	<u>32,831,878</u>	<u>30,986,278</u>	<u>148,647,228</u>
Total noncurrent assets	<u>92,946,134</u>	<u>34,394,921</u>	<u>40,728,073</u>	<u>168,069,128</u>
Total assets	<u>152,061,047</u>	<u>53,163,360</u>	<u>45,000,927</u>	<u>250,225,334</u>

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 7,034,208	\$ 311,414	\$ 500,837	\$ 7,846,459
Accrued salaries and wages payable	418,492	163,805	124,583	706,880
Due to other funds of the				
City of Holland	8,299	255,949	211,243	475,491
Deposits	188,558	-	-	188,558
Accrued interest payable	-	17,366	-	17,366
Current maturities of bonds payable	-	500,500	-	500,500
Total current liabilities	<u>7,649,557</u>	<u>1,249,034</u>	<u>836,663</u>	<u>9,735,254</u>
Current liabilities payable from restricted assets				
Principal	2,555,000	-	475,000	3,030,000
Accrued interest payable	<u>64,548</u>	<u>-</u>	<u>396,392</u>	<u>460,940</u>
Total current liabilities payable from restricted assets	<u>2,619,548</u>	<u>-</u>	<u>871,392</u>	<u>3,490,940</u>
Long-term debt - net of current portion	<u>2,650,692</u>	<u>3,971,154</u>	<u>18,827,596</u>	<u>25,449,442</u>
Total liabilities	<u>12,919,797</u>	<u>5,220,188</u>	<u>20,535,651</u>	<u>38,675,636</u>
Net assets				
Invested in capital assets, net of related debt	79,623,380	28,360,224	11,683,682	119,667,286
Restricted for:				
Equipment replacement	200,000	1,563,043	-	1,763,043
Park Township	-	-	128,049	128,049
Cooperative payments	3,952,883	-	-	3,952,883
Construction	-	-	7,075,022	7,075,022
Unrestricted	<u>55,364,987</u>	<u>18,019,905</u>	<u>5,578,523</u>	<u>78,963,415</u>
Total net assets	<u>\$ 139,141,250</u>	<u>\$ 47,943,172</u>	<u>\$ 24,465,276</u>	<u>\$ 211,549,698</u>

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2006

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	\$ 14,810,178	\$ 1,564,892	\$ 1,803,801	\$ 18,178,871
Commercial sales	33,590,030	1,383,368	1,424,997	36,398,395
Industrial sales	28,280,476	617,580	780,132	29,678,188
Wholesale	-	1,554,451	1,407,754	2,962,205
Fees and other	1,592,117	2,099,564	442,917	4,134,598
Total operating revenue	78,272,801	7,219,855	5,859,601	91,352,257
Operating expenses				
Salaries and wages	2,903,168	985,668	723,412	4,612,248
Employee benefits	2,124,919	610,951	418,465	3,154,335
Production	56,226,984	2,061,775	494,483	58,783,242
Distribution	2,781,694	599,924	560,888	3,942,506
Administrative and general	3,300,342	1,355,396	1,315,441	5,971,179
Depreciation	9,316,630	1,824,706	1,164,881	12,306,217
Total operating expenses	76,653,737	7,438,420	4,677,570	88,769,727
Operating income	1,619,064	(218,565)	1,182,031	2,582,530
Nonoperating income (expense) - net				
Interest income	1,167,402	446,647	486,415	2,100,464
Interest expense	(229,412)	(256,102)	(864,638)	(1,350,152)
Insurance refunds	28,512	10,896	8,592	48,000
Gain (loss) on sale and disposal of capital assets	7,759	(14,107)	2,857	(3,491)
Total nonoperating income (expense) - net	974,261	187,334	(366,774)	794,821
Net income (loss) before contributions and transfers	2,593,325	(31,231)	815,257	3,377,351
Capital contributions				
Infrastructure	62,128	174,880	177,154	414,162
Trunkage	-	283,763	96,277	380,040
Total capital contributions	62,128	458,643	273,431	794,202
Transfers out to other funds of the City	(2,433,000)	-	-	(2,433,000)
Change in net assets	222,453	427,412	1,088,688	1,738,553
Net assets, beginning of year	138,918,797	47,515,760	23,376,588	209,811,145
Net assets, end of year	<u>\$ 139,141,250</u>	<u>\$ 47,943,172</u>	<u>\$ 24,465,276</u>	<u>\$ 211,549,698</u>

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows

For the Year Ended June 30, 2006

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 78,092,584	\$ 7,171,477	\$ 5,972,951	\$ 91,237,012
Payments to suppliers	(65,013,129)	(4,057,190)	(2,149,430)	(71,219,749)
Payments to employees	(5,028,087)	(1,596,619)	(1,141,877)	(7,766,583)
Net cash provided by (used in) operating activities	<u>8,051,368</u>	<u>1,517,668</u>	<u>2,681,644</u>	<u>12,250,680</u>
Cash flows from noncapital financing activities				
Insurance refunds	28,512	10,896	8,592	48,000
Transfers to other funds of the City	(2,433,000)	-	-	(2,433,000)
Net cash (used in) provided by noncapital financing activities	<u>(2,404,488)</u>	<u>10,896</u>	<u>8,592</u>	<u>(2,385,000)</u>
Cash flows from capital and related financing activities				
Principal paid on long-term debt	(2,375,314)	(448,269)	-	(2,823,583)
Interest paid on long-term debt	(254,161)	(257,600)	(518,679)	(1,030,440)
Capital contributions - trunkage	62,128	458,643	273,431	794,202
Proceed from sale of capital assets	90,246	-	131,554	221,800
Purchase of property, plant and equipment	(2,880,436)	(1,351,389)	(3,613,100)	(7,844,925)
Net cash (used in) provided by capital and related financing activities	<u>(5,357,537)</u>	<u>(1,598,615)</u>	<u>(3,726,794)</u>	<u>(10,682,946)</u>
Cash flows from investing activities				
Interest income	1,135,287	494,943	478,347	2,108,577
Purchase of investment securities	(36,791,952)	(16,545,470)	(2,665,929)	(56,003,351)
Proceeds from sale or maturities of investment securities	<u>41,089,639</u>	<u>16,598,620</u>	<u>1,618,396</u>	<u>59,306,655</u>
Net cash provided by (used in) investing activities	<u>5,432,974</u>	<u>548,093</u>	<u>(569,186)</u>	<u>5,411,881</u>
Net increase (decrease) in cash and cash equivalents	5,722,317	478,042	(1,605,744)	4,594,615
Cash and cash equivalents, beginning of year	<u>5,965,033</u>	<u>2,167,387</u>	<u>11,872,426</u>	<u>20,004,846</u>
Cash and cash equivalents, end of year	<u>\$ 11,687,350</u>	<u>\$ 2,645,429</u>	<u>\$ 10,266,682</u>	<u>\$ 24,599,461</u>
Statement of net assets classification of cash and cash equivalents:				
Cash and cash equivalents	\$ 8,857,560	\$ 2,049,718	\$ 2,190,816	\$ 13,098,094
Restricted assets, cash and cash equivalents	<u>2,829,790</u>	<u>595,711</u>	<u>8,075,866</u>	<u>11,501,367</u>
Total cash and cash equivalents	<u>\$ 11,687,350</u>	<u>\$ 2,645,429</u>	<u>\$ 10,266,682</u>	<u>\$ 24,599,461</u>

(Continued)

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2006

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,619,064	\$ (218,565)	\$ 1,182,031	\$ 2,582,530
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	9,316,630	1,824,706	1,164,881	12,306,217
Changes in operating assets and liabilities which provided (used) cash				
Receivables	(119,716)	(83,022)	136,421	(66,317)
Due from other funds of the City of Holland	(60,501)	34,644	(23,071)	(48,928)
Inventories	(2,909,272)	(13,690)	(16,229)	(2,939,191)
Prepaid expenses	31,475	(720)	(521)	30,234
Accounts payable	121,389	(190,408)	177,005	107,986
Accrued salaries and wages payable	43,487	15,467	10,307	69,261
Due to other funds of the City of Holland	2,637	149,256	50,820	202,713
Deposits	6,175	-	-	6,175
Net cash provided by operating activities	<u>\$ 8,051,368</u>	<u>\$ 1,517,668</u>	<u>\$ 2,681,644</u>	<u>\$ 12,250,680</u>

(Concluded)

HOLLAND BOARD OF PUBLIC WORKS

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

June 30, 2007

Year Ended June 30	Contributions		Other	Interest		Improvements	Reserve Balance
	From Billings			Rate	Amount		
1989	\$ 124,116	\$ 292,722		8.02 %	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045		8.21	95,519	72,939	1,291,573
1991	124,116	-		7.06	91,161	124,794	1,382,056
1992	124,116	-		5.49	64,501	538,427	1,032,246
1993	188,364	12,555		4.21	27,927	1,161,092	100,000
1994	195,180	-		3.46	6,640	18,347	283,473
1995	208,680	-		5.41	21,139	14,662	498,630
1996	224,508	2,190		6.24	36,008	45,287	716,049
1997	229,350	-		6.14	47,244	145,361	847,282
1998	244,651	-		6.33	58,314	163,917	986,329
1999	250,903	77,335		6.00	62,497	501,228	875,836
2000	272,594	804,159		5.59	44,448	619,684	1,377,352
2001	278,479	-		6.26	84,190	427,542	1,312,479
2002	298,340	-		3.64	34,041	173,806	1,471,054
2003	361,244	-		2.95	43,426	123,852	1,751,871
2004	403,722	-		(1.14)	(20,012)	116,985	2,018,596
2005	448,249	-		2.81	74,659	1,404,334	1,137,170
2006	518,220	-		1.90	25,608	117,955	1,563,043
2007	575,848	-		4.20	78,629	37,557	2,179,963

NOTE: The ending reserve balance does not reflect any open purchase commitments at June 30.

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2007

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Combined</u>
Land	\$ 4,810,124	\$ 260,673	\$ 1,699,555	\$ 6,770,352
Production plant	114,942,699	35,666,982	15,734,993	166,344,674
Distribution system	70,108,733	5,235,359	22,260,451	97,604,543
Transmission	11,301,260	19,396,215	2,379,173	33,076,648
General plant	10,565,208	3,908,226	2,391,236	16,864,670
Construction in progress	<u>1,086,661</u>	<u>200,065</u>	<u>5,056,547</u>	<u>6,343,273</u>
Total	212,814,685	64,667,520	49,521,955	327,004,160
Less accumulated depreciation	<u>(134,375,247)</u>	<u>(32,710,450)</u>	<u>(16,390,545)</u>	<u>(183,476,242)</u>
Net capital assets	<u><u>\$ 78,439,438</u></u>	<u><u>\$ 31,957,070</u></u>	<u><u>\$ 33,131,410</u></u>	<u><u>\$ 143,527,918</u></u>

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2006

	Electric Utility	Wastewater Utility	Water Utility	Combined
Land	\$ 4,810,124	\$ 260,673	\$ 1,669,301	\$ 6,740,098
Production plant	114,650,164	35,601,866	15,717,565	165,969,595
Distribution system	69,037,903	5,165,443	21,636,316	95,839,662
Transmission	11,301,260	18,600,786	2,379,173	32,281,219
General plant	10,479,734	3,946,461	2,418,003	16,844,198
Construction in progress	177,395	230,708	2,424,817	2,832,920
Total	210,456,580	63,805,937	46,245,175	320,507,692
Less accumulated depreciation	(125,627,508)	(30,974,059)	(15,258,897)	(171,860,464)
Net capital assets	\$ 84,829,072	\$ 32,831,878	\$ 30,986,278	\$ 148,647,228

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 5, 2007

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the Holland Board of Public Works (enterprise funds of the City of Holland, Michigan), as of and for the year ended June 30, 2007, which collectively comprise the Holland Board of Public Works' basic financial statements, and have issued our report thereon dated September 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holland Board of Public Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Holland Board of Public Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Holland Board of Public Works' financial statements that is more than inconsequential will not be prevented or detected by the Holland Board of Public Works' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Holland Board of Public Works' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holland Board of Public Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

September 5, 2007

To the Board of Directors of the
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of Holland Board of Public Works for the year ended June 30, 2007, and have issued our report thereon dated September 5, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 9, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Holland Board of Public Works. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Holland Board of Public Works' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Holland Board of Public Works are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Holland Board of Public Works during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The allowance for doubtful accounts is estimated based on prior experience with collections.
- Depreciation expense has been calculated based on estimated lives of the respective assets.
- Landfill closure and post-closure costs have been calculated based on state guidelines and landfill utilization to date.
- Future fixed operating costs paid to Michigan Public Power Agency have been calculated based on future debt service requirements and inflation of other costs at 3%.
- Contributed water and sewer infrastructure values have been estimated at current bid cost which is discounted to the date of acquisition utilizing historical construction inflation data.
- The allocation of shared costs between the funds has been determined based on studies of related time expended, services performed or other applicable activities and data.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Holland Board of Public Works' financial reporting process (that is, cause future financial statements to be materially misstated). No audit adjustments were proposed.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Holland Board of Public Works’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in black ink and is positioned below the "Very truly yours," text.